

Developing your business plan

To convince investors, you must describe your dream plan in words and spreadsheets, moving from vision to practical details.

Momentum is building. You're confident your idea is going to work and you want to move forward to start your company. Now's the time to gather your thoughts and put them down on paper. In this article, we'll look at the basics of writing a business plan—what it is, who needs it, and how to think about it. Having been both an entrepreneur and an investor, I can take you across the table and behind the scenes to help you develop and sell your idea.

You want your business plan to convince investors to part with their money and to convince professionals to join your team. But before it can be useful and convincing to them, it must be useful and convincing to you. Most of all, the business plan is a valuable planning tool to help you systematically think through the business.

The entrepreneurs point of view

Up until this point your business is only an idea or a dream in your head. People toss around ideas all the time. Writing the business plan is the first step to confirm to yourself and others that you're serious about your idea.

You start with a vision of what you want to accomplish. In preparing a business plan, you deal with the details, the practical aspects of how you're going to realize and implement your vision. You have to decide how to develop, make, and distribute products (or provide services), persuade customers to buy them, find and keep good people, respond to your competitors, and even decide how to pay yourself.

Writing the business plan helps you

achieve a state of intellectual preparedness. Be prepared to fine-tune your business plan as you add people to your team and as you get investor feedback.

Writing your plan is like working through a flight-simulator exercise that trains you to run your business. It's the next best thing to having actually done it. You'll envision and play out different scenarios. You'll describe those scenarios in words and also in spreadsheets that show the financial results of your actions. As problems in cash flow become apparent, you modify your decisions and actions or even

blind spots. I recommend that you also have a lawyer review the plan to make sure your optimism won't be construed as a warranty for success.

The investor's point of view

As in all "selling" situations, you begin with an understanding of your customers—you write the plan from their perspective. Remember, you want to present reasons for them to invest, and they want to find reasons not to. Investing is a defensive game! One Silicon Valley venture capital firm I know receives six hundred business plans a year; another receives more than a

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modify your strategy. For example, you may decide to slow down your sales growth if it's placing too high a demand on cash. That's counter intuitive, but it shows up clearly as you play with your spreadsheet. The work you do now can help you avoid costly mistakes.

If you can't write a good business plan, you're probably not ready to start your own business. But it's unthinkable to have an outside professional write your business plan; it defeats the whole purpose. You will need guidance from experts on different aspects of the business, and you can learn a lot from books and from existing companies. You can get an annual report from a public company in a similar business or simply look into the company you work for now. It's important that other people critique your plan along the way to help you find

thousand. Potential investors can't devote much time to you. So you need to convince them quickly.

The first thing an investor reads is the Executive Summary (see "Writing the Executive Summary" on p.10), so it's the most important part of your business plan. The investor really wants answers to these questions:

- Is this going to be a good business?
- Can this company succeed?
- What is the payout, and when does it happen?
- Can I trust and have confidence in these people? Do I like them? Can I work with them?
- How much investment would be needed to get the business launched? Can I get other investors interested to share my risks?
- Will I be proud as an investor in this company?

For most venture capitalists, the investment criteria are market size, technology, and people, in that order. Using the low-risk startup model I presented in the first article in this series (see *Laser Focus World*, March 1995, p. 61), the considerations are reversed: people are the key.

Body language. Potential investors can't possibly understand all the business plans coming their way. They get the job done by looking for inconsistencies in your presentation and by resorting to intuition and reading body language. In essence, consciously or not, they are comparing you to business people in their own experience who have been successful.

Successful people are goal oriented, thorough, and decisive; they can cut to the heart of the matter quickly. They have enough self-confidence to be objective, and they don't generally resort to snow jobs to convince people. As for myself, I also look for honesty, enthusiasm, and commitment. People won't be successful unless they're passionate and love their work. That's the body language you have to convey in your business plan, and, for that matter, in all your interactions.

Putting it together

To begin with, you want to define clearly the kind of investor that's likely to fund you. Professional investors are unlikely to invest in someone who hasn't started a company before. And in general, the investment community doesn't look with great favor on the laser and optics industries. For these reasons, chances are that your target investor will be an "angel," a private individual investing personal funds.

It's inexcusable to submit a business plan that's inconsistent, incorrect, poorly written, or in any way unprofessional. I tend to shy away from a business plan if I don't understand the main message right away. If the plan is sloppy, I get nervous about the planner's ability to get the job done right.

Keep it short. Keep the business plan crisp and concise, no longer than thirty pages as a rule of thumb. The Executive Summary should be just a page or two. The optimal length for the main body text is 10 to 15 pages. If your plan is too long, investors may think you're trying to cover up a lack of substance with bulk, you're indecisive or lacking in confidence, you're con-

Writing the Executive Summary

All is lost if you can't pique the investor's interest in the Executive Summary. You'll have to invest quite a bit of time to write a complete story in two pages. Remember, you want the investor to identify with your enthusiasm. You want to help people form a vivid mental picture and "see" your business just as clearly as if they were in the middle of it as it's happening. Keep this section positive. Put the caveats in the main text.

The Executive Summary should deal with these issues:

Mission

What's the business, and where do you plan to take it? You want to give the reader a feel for the product and its potential. This is a good place to state why you and your team want to start this business.

Opportunity

What unique set of circumstances led to this opportunity? The circumstances can include some technology changes, a unique group of people getting together, or your unusual experience that made it possible for you to see this opportunity.

Why you can succeed

Explain the unique competitive advantage your company possesses that would be hard to duplicate elsewhere and how you would sustain that advantage over time. This advantage is often referred to as the core competence of a company. Re-

member, it usually takes more than technology to make a business successful.

Where you are today

Describe the status of the product and the time when business transactions will begin. Give a sense of what key milestones you must reach before business can sustain itself or be ready for the next round of financing.

Operating plans

Make a strategic statement about each function of the company. Pay particular attention to product development, manufacturing, and marketing and sales. Knowing the status of your company and the way you plan to operate helps the investor to visualize the amount of investment you'll need.

Organization

Key people and their track records are a major decision factor. State their experience factually, and limit the discussion to what is germane to this business. Key people can include directors, advisors, and existing investors who are well known. You may also want to make a statement about your organizational strategy.

Financial needs

Clearly state how much money you would need for starting your business and how you would use the money. In most cases, people don't describe the "deal" or the ownership breakdown here in the business plan.

fused and can't see what's most important, or, worse, that you're inconsiderate — you're taking up people's time unnecessarily.

Be honest. People often ask me whether they should inflate the numbers "because the investors will divide them by two anyway." I tell them no. It's essential that you be honest. Don't exaggerate any numbers, and make sure you can back up your claims about the size of the market. Professional investors will run their own numbers if they're seriously interested. And if you get away with inflating the numbers, you'll be forced to operate

as if you were reaching for an unrealistically high target. That may very well mean spending at a higher than optimum rate, which heightens your risk of running out of money before the business develops.

Think also about the people that would join your company based on your presentation. You may be disrupting their entire career! Dishonesty could very well be a time bomb for investors, employees, and everyone involved. Your lawyer may protect you with the right caveat wording, but I prefer to think of the business plan as an implied contract.

Putting together your business plan

The Executive Summary comes first, and a financial statement with a five-year financial projection follows. Put miscellaneous supporting documents, including resumés of the key executives, in appendices. Keep these questions in mind as you write out your business plan.

Mission and vision

What's the driving force behind your company? Why does it exist? How big do you envision it becoming? What image will it have in the marketplace? How will employees feel about working there?

Products (and/or services)

What are your products? Why do people need them? (Include photographs of a mockup or an artist's rendition.) What are the unique advantages your product provides? What's the status of the product? What will it take to get the product ready? What are the follow-on products? What kind of protection is available (patents, materials available only to you, etc.)? Does the product depend on someone else for materials or key capabilities? Are any government regulations relevant, or government approvals required? What is the likely product life cycle?

Target customers

Who are the customers? What industries do they work in? How do they make buying decisions? Who has the final say? Who pays the bill? What are the driving factors (Relative importance of price, performance, etc.)? What are the customers' economic forces? What are the relevant characteristics of the customers (for example, are they slow to make changes, sensitive to price, etc.)? What potential customers have you talked to? What are their reactions? Do you have any customers lined up? Do you have any testimonials from customers? Have you received any feedback about prototypes?

The market

What kind of people or organizations need this product? Are you serving a scientific, industrial, OEM, or consumer market? How many potential customers are there? What are the alternative solutions to their problem? What trends will impact this market? What's the industry like? How big are the other companies serving this market? What do you know about these companies? Have you heard any recent success stories about this industry?

Competitive analysis

What is your sustainable competitive advantage? What is your core competence? Why can you succeed better than others? Who can provide similar products? What are their strengths and weaknesses, compared to yours? How big are they? What are their likely reactions, based on the past actions? What are your options if the going gets tough?

R&D

How do you sustain a technical competitive advantage? What kind of facility or significant capital investments do you need? Is there any technology bottleneck that may become a problem? Do you anticipate any breakthroughs if everything works right? What are your competitors doing in R&D? What do the government funding agencies believe? Do you have any prospects for getting government support?

Manufacturing and operations

How do you propose to manufacture products? Are you vertically integrated, or will you depend on resources from suppliers? Do you depend on the unique skills of a few key suppliers? Do you require a significant amount of manufacturing equipment? Do your materials requirements have any unusual aspects such as long lead times, cost fluctuations, or special controls? What kind of information system do you need? How will you document your manufacturing process? How will the operation evolve? What will it look like one, three, and five years out?

Marketing

How do you propose to reach customers? Are there special trade shows or magazines? Who are the decision makers of the industry? Who are the opinion leaders? How does information flow? What kind of image do you want to convey to your customers? What are the new products to develop first? How will you position your products (lowest price, highest quality, or mid-range)? What is your pricing strategy? What is your target market segment? What kind of sales literature will you provide? What are your advertising plans? What distribution channels are currently used in the industry? Will you use sales representatives, dealers, or employ your own direct sales force? Are there any new ways to reach new customers? How do you reach international customers?

Sales

How do you take care of customers when they need information and services? What kind of sales force do you have? How do you manage them? What's conventional in the industry, and how will you do things differently?

Risks

What are the critical success factors? What are the likely failure modes?

Financing

How much funding are you looking for? What will you do with the funding? What is your current financial situation? What future funding requirements do you anticipate before reaching positive cash flow? How will you raise the balance of the money required to launch the business? What are your profit margins? What is the exit strategy for all involved? What happens if the business deviates from your projections?

Other parts of the puzzle

Why is that some business plans get funded while others don't? That may be the wrong question to ask, because I doubt that any investor ever decides to invest on the basis of the business plan alone. The business plan is only a small part of the complex puzzle involved in making an investment decision.

At the introductory stage when you submit your plan, the key is to keep the process going rather than to close the sale. This perspective puts an interesting spin on how you approach writing the business plan. You'll want to keep it short and simple, easy to read and understand, and you'll want to give the reader a reason to come back for more information. Relax and be yourself. All you need is one investor that responds well to you. If you aim right, you'll get funded soon enough. □